EYE ON HOUSING, SP GROUP GETS REAL

Better known for its construction chops, the group is making a serious play as a real estate developer

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BENGALURU

It's impossible to miss the 60-storeyed skyscraper in south Mumbai's posh Tardeo locality. Named The Imperial, the iconic blue and white twin towers with conical tops were designed by noted architect Hafeez Contractor. Built by SD Corp, a joint venture between the infrastructure-to-energy conglomerate Shapoorji Pallonji Group and the Dilip Thacker Group, the residential building was one of the earliest slum redevelopment projects in India's financial capital. When it was completed in 2010, it was India's tallest building, and altered the skyline of the city.

While The Imperial is one of its best-known real estate projects, the 160-year-old Shapoorji Pallonji Group is better known for its construction chops.

As a contractor, it has built a number of well-known edifices, including the Reserve Bank of India (RBI) headquarters and Oberoi Towers in Mumbai, as well as a number of structures overseas. It has executed projects for multiple developers, including DLF and Godrej Properties, and also built hospitals, hotels, educational campuses, industrial parks, as well as Ikea's Bengaluru store.

The group is now looking to broaden its own presence in the real estate business, especially the residential market, in which it is a mid-level contender and a good distance away from leaders DLF Ltd, Prestige Group, Macrotech Developers Ltd and Godrej Properties Ltd. The four publicly listed developers clocked around ₹73,000 crore of sales bookings in 2023-24. This year, they are collectively targeting ₹88,000 crore of sales.

Shapoorji Pallonji Real Estate Pvt. Ltd (SPRE), in contrast, expects to close 2024-25 with bookings of ₹5,000 crore. But it is looking to more than triple that number over the next four years, and to that end has embarked on a consolidation exercise.

A file photo of Venkatesh Gopalakrishnan, director, group promoter's office, and MD and CEO, Shapoorji Pallonji Real Estate. With a land bank of about 2,000 acres, the company is ready to leapfrog, he believes.

CYRUS MISTRY'S BRAINCHILD

Sometime in 2021, the late Cyrus Mistry, former chairman of Tata Sons Ltd and younger brother of Shapoor Mistry, chairman of Shapoorji Pallonji And Company Pvt. Ltd (SPCPL), suggested that the property business be unbundled and spun off into a separate holding company.

Over the years, Shapoorji Pallonji Group has been developing residential projects under the Shapoorji Pallonji Real Estate brand; mid-income housing projects under its 'Joyville' platform; and office parks under the SP Infocity label. As Mistry envisaged it, the holding company would consolidate all the real estate assets of the group under one umbrella, which would help in scaling up the business, and eventually taking it public.

Tragically, Mistry died in a road accident a year later, in September 2022, three months after his father, 93-year-old Pallonji Mistry, had passed away. Today, Shapoor Mistry and his son, Pallon, and Cyrus Mistry's sons, Firoz and Zahan, own the group equally.

In keeping with Mistry's restructuring suggestion, in a year-long exercise that culminated on 30 July, a new holding company, SPRE, was formed. The new holding entity now houses 45 land parcels and projects, which were all part of SPCPL, the group's flagship company.

With the land in the bag, the company is ready to leapfrog, Venkatesh Gopalakrishnan, managing director and chief executive of the company, told *Mint*, noting that SPRE already has around 22 million sq. ft of ongoing projects.

"Real estate is not a new business for us. However, with this massive unbundling exercise, the land we have acquired, and the 1,000-member team we have assembled, we are looking at multifold growth from here on," Gopalakrishnan added. "The promoters are very keen to make real estate one of the biggest businesses in Shapoorji Pallonji Group."

With the roadmap laid out, the real test for SPRE would be in project execution and sales in a fiercely competitive market.

> SPRE plans to list in 15-30 months, raising $800-900 million by offloading a 10-12% stake. Further dilutions will take the public float to 25%

DEVELOPMENT PIPELINE

The creation of SPRE as a separate real estate entity was preceded by active land acquisitions over the last seven-eight years to create a large development pipeline. With nearly 2,000 acres in the five major property markets—Mumbai, Pune, Bengaluru, Gurugram and Kolkata—and large parcels in Mysuru and Nagpur, the land and ongoing projects are valued at about ₹50,000 crore.

The land bank will help create a massive portfolio with a total development potential of around 140 million sq. ft. When fully developed, it has a total revenue potential of up to ₹2 trillion, as per the company's estimates.

"The 140 million sq. ft development pipeline is expected to span over 9-10 years. Of course, the market needs to support us, but we are confident," said Gopalakrishnan, who joined the company in 2010 and took over as CEO of the real estate business in 2017.

About 80% of the 2,000 acres will be developed as greenfield projects, while the remaining 20% will be complex brownfield projects, including slum and society redevelopment. The most valued project in the pipeline, for instance, is a 32-acre slum project in south Mumbai's Cuffe Parade, one of the more expensive property micro-markets in the country.

SPRE has a 30-member land acquisition team and a 35-member team focused solely on getting project approvals. "90% of our land is owned by us, and we have spent considerable time cleaning up land parcels and getting the required approvals so we can get them launch-ready," said Gopalakrishnan.

As the land parcels get developed, sales are expected to rise manifold. SPRE expects bookings of around ₹18,000 crore by 2027-28.

A BIGGER SHARE

Shapoorji Pallonji couldn't have picked a better time to consolidate its real estate business. The residential market, in particular, has been on steroids, with top-listed developers aiming to create new sales milestones this year. Property analysts are calling it a multi-year upcycle, one that still has a lot of momentum left.

Anuj Puri, chairman of property advisory Anarock Group, believes SPRE is on the right track. "This is a good time for them to grow. They have the ability to build large developments, given their contracting arm. They also have a good reputation and large land banks," he said.

Indeed, there has been a consolidation of demand and new supply towards credible players. As Puri put it, there is a trust and comfort factor at play when homebuyers invest in projects backed by large corporate houses.

India's large corporations have a long history with real estate. The Tatas (Tata Housing), Aditya Birla Group (Birla Estates), Larsen & Toubro Group (L&T Realty), and Mahindra Group (Mahindra Lifespace Developers Ltd) are a case in point. The biggest developer is Godrej Properties, part of Godrej Industries, which has shed its conservative approach to top the sales charts in 2023-24.

The turnaround in the real estate sector and consolidation in the market has seen many of these conglomerates stepping up their real estate game. Adani group's realty play, for instance, is 14 years old, but it is only in the last four years that it has scaled up, with around 130 million sq. ft earmarked for future development.

The 99-year-old Raymond Group, a name long associated with fabric for men's suits, is another conglomerate that has taken to real estate in a big way. A late entrant in the real estate space, Raymond launched its first project in Thane, near Mumbai, only in 2019. In July, the Mumbai-based group said that it would de-merge its property business into a separate entity called Raymond Realty, to unleash its growth potential. Post-approval, Raymond Realty will operate as a listed entity within the Group.

Gopalakrishnan said the Shapoorji Pallonji Group has a similar ethos and culture as many of the other conglomerates. But there are differences. "Except for L&T, we are the only one with a strong construction arm. Secondly, unlike many others, real estate is core to our group and holds a lot of importance, and will be a main business going forward," he said.

MID-INCOME FOCUS

SPRE's portfolio is diverse, from affordable and mid-income homes to luxury projects. For instance, it has residential apartments starting from ₹15 lakh at 'Shukhobrishti' in Kolkata. In a mid-income project at Manjri, Pune, a 2BHK (bedroom, hall, and kitchen) costs ₹60-65 lakh, while a duplex is priced at ₹1.2 crore and upwards. As for premium and luxury projects, homes in the third tower of The Imperial in Tardeo will be priced at ₹15-20 crore each.

In late 2015, the Shapoorji Pallonji Group launched Joyville, a $200-million platform to build mid-income homes, in partnership with Standard Chartered Private Equity (now Actis), Asian Development Bank (ADB) and International Finance Corp. (IFC).

So far, seven projects, comprising 10,500 homes, have been launched under Joyville across Mumbai, Pune, Gurugram, and Howrah in West Bengal. The focus has been on acquiring fairly large land parcels, but while the platform has grown, it has not been aggressive in expansion.

mint SHORT STORY

WHAT

Shapoorji Pallonji Real Estate has a modest presence in the country's residential real estate market and expects to close 2024-25 with bookings of ₹5,000 crore.

WHEREAS

Listed developers Godrej Properties, DLF, Prestige and Macrotech collectively recorded bookings of ₹73,000 crore in 2023-24 and are targeting ₹88,000 crore in FY25.

NOW

After consolidating all its realty assets under a holding company and developing its large land bank, SPRE expects to have sales bookings of ₹18,000 crore by 2027-28.

"When one is starting up, you need to get the business model right and know how to execute and sell. We have crossed that stage. Now is the time for growth," said Joyville managing director Sriram Mahadevan. "We are looking at adding an average of 3-5 projects annually for the next 2-3 years."

Currently, 48.5% of Joyville is held by SPRE and the remaining 51.5% is held by the three investors, Actis, IFC and ADB.

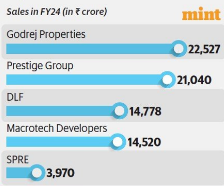
Gopalakrishnan said the company has returned the capital investment of the investors through the project's cash flows and will fully own the platform after clearing residual dues. "Today, Joyville constitutes about 20-25% of the sales volume in SPRE. That could grow as SPRE grows," he added.

The demand for mid-income homes has remained steady in recent years while the share of affordable housing has shrunk.

"Homes priced between ₹50 lakh and ₹1.5 crore contribute about 45% of overall housing sales," said Pankaj Kapoor, founder and managing director at Liases Foras, a realty research firm. "The maximum supply of homes is in the mid-income segment due to the high demand."

A HOUSE TO BUILD

SPRE is a good distance away from the big four of Indian real estate.



SPRE: What the new holding co. includes

Land bank: 2,000 acres approx	
Total development potential: 140 million sq. ft	Ongoing projects: 22 million sq. ft
Joyville projects: 7	Geographic focus: MMR, NCR, Pune, Kolkata

Notes: MMR is Mumbai Metropolitan Region; NCR is National Capital Region

Source: Company data

SATISH KUMAR/MINT

IPO PLANS

The ₹5,430 crore initial public offering (IPO) of Shapoorji Pallonji Group's construction and engineering firm, Afcons Infrastructure, will debut on stock exchanges on 4 November.

SPRE, meanwhile, plans to list in 15-30 months, raising $800-900 million by offloading 10-12% of its stake initially. Later, further dilutions will take the public float to 25%, resulting in a total fundraising of around $2 billion.

Before the IPO, Gopalakrishnan, who is also a director at the group promoter's office, said the company may onboard a marquee investor in the holding company. Secondly, in the run-up to a public listing, over the next 12 months, SPRE may monetize or sell a few smaller, non-core land parcels to pare debt, though its focus is to develop most of the land it owns.

The real estate firm currently has about ₹6,500 crore of debt, primarily construction finance and asset-backed loans.

"For a long time, companies held by the promoters were largely privately held. We are more confident now of taking group companies public. Each business, whether Afcons or SPRE, has reached a particular size that merits unlocking of value and thinking long-term," said Gopalakrishnan.

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Aside from real estate, as part of a larger group-wide restructuring effort, the other key focus areas will be the construction and engineering business, and energy. The broader strategy aims to unlock value in various business verticals, create separate capital structures and leadership teams, and enable operational efficiency.

At the group level, the conglomerate has faced its share of challenges in the past. Diversifying into multiple businesses and taking on risks led to a debt pile-up.

As a result, it sold a few of its businesses, including Eureka Forbes, Sterling and Wilson Renewable Energy Ltd, and paid back ₹12,500 crore in 2023 to creditors as part of a one-time resolution without a haircut. As a result, Shapoorji Pallonji Group has also halved its debt to ₹20,000 crore.

"The liquidity challenge faced by the group impacted its different businesses, including real estate, leading to some project delays. But, the worst is behind them. The real estate business is a cash cow for the group, so they are focused on growing it," said a senior banker, who did not want to be named.

As far as real estate IPOs are concerned, the housing boom in the aftermath of the pandemic has led to a number of developers taking the leap. Macrotech Developers, Shriram Properties, Keystone Realtors, Suraj Estate Developers and Signature Global are among the firms that went for a public listing in recent years.

Competition is heating up in the arena, and in the coming years, corporate developers such as Raymond Realty, Adani Realty and SPRE are all aiming to become one of the top five developers. However, in terms of size, they will not be able to match the mainstream developers anytime soon. The market capitalization of DLF Ltd and Macrotech Developers Ltd, for instance, is at ₹2.05 trillion and ₹1.10 trillion, respectively. "In terms of market cap, they are larger than many companies put together and will only grow further," said Puri.

As a developer, Shapoorji Pallonji has always been a bit of a 'silent player'. However, with rising competition and aggressive expansion by other developers, it may need to change that approach as it seeks to realize the full potential of its real estate vertical. The good news, say property consultants, is that with the market touching new peaks, there is room for everyone to grow.